

Credit for Increasing Research Activities

► Attach to your tax return.

Identifying number

Part I Current Year Credit (Members of controlled groups or businesses under common control, see instructions.)**Section A—Regular Credit.** Skip this section and go to Section B if you are electing or previously elected the alternative incremental credit.

1	Certain amounts paid or incurred to energy consortia after August 8, 2005 (see instructions)	1		
2	Basic research payments to qualified organizations (see instructions)	2		
3	Qualified organization base period amount	3		
4	Subtract line 3 from line 2. If zero or less, enter -0-	4		
5	Wages for qualified services (do not include wages used in figuring the work opportunity credit)	5		
6	Cost of supplies	6		
7	Rental or lease costs of computers (see instructions)	7		
8	Enter the applicable percentage of contract research expenses (see instructions)	8		
9	Total qualified research expenses. Add lines 5 through 8	9		
10	Enter fixed-base percentage, but not more than 16% (see instructions)	10		%
11	Enter average annual gross receipts (see instructions)	11		
12	Multiply line 11 by the percentage on line 10.	12		
13	Subtract line 12 from line 9. If zero or less, enter -0-	13		
14	Multiply line 9 by 50% (.50)	14		
15	Enter the smaller of line 13 or line 14	15		
16	Add lines 1, 4, and 15	16		
17	Regular credit. If you are not electing the reduced credit under section 280C(c), multiply line 16 by 20% (.20), enter the result, and see the instructions for the schedule that must be attached. If you are electing the reduced credit, multiply line 16 by 13% (.13) and enter the result. Also, write "Sec. 280C" on the dotted line to the left of the entry space. Go to Section C.	17		

Section B—Alternative Incremental Credit. Skip this section if you completed Section A.

18	Certain amounts paid or incurred to energy consortia after August 8, 2005 (see the line 1 instructions)	18		
19	Basic research payments to qualified organizations (see the line 2 instructions)	19		
20	Qualified organization base period amount (see the line 3 instructions)	20		
21	Subtract line 20 from line 19. If zero or less, enter -0-	21		
22	Multiply line 21 by 20% (.20)	22		
23	Wages for qualified services (do not include wages used in figuring the work opportunity credit)	23		
24	Cost of supplies	24		
25	Rental or lease costs of computers (see the line 7 instructions)	25		
26	Enter the applicable percentage of contract research expenses (see the line 8 instructions)	26		
27	Total qualified research expenses. Add lines 23 through 26.	27		
28	Enter average annual gross receipts (see the line 11 instructions)	28		
29	Multiply line 28 by 1% (.01)	29		
30	Subtract line 29 from line 27. If zero or less, enter -0-	30		
31	Multiply line 28 by 1.5% (.015)	31		
32	Subtract line 31 from line 27. If zero or less, enter -0-	32		
33	Subtract line 32 from line 30	33		
34	Multiply line 28 by 2% (.02)	34		
35	Subtract line 34 from line 27. If zero or less, enter -0-	35		
36	Subtract line 35 from line 32	36		
37	Multiply line 33 by 2.65% (.0265)	37		
38	Multiply line 36 by 3.2% (.032)	38		
39	Multiply line 35 by 3.75% (.0375)	39		
40	Add lines 18, 22, 37, 38, and 39.	40		
41	Alternative incremental credit. If you are not electing the reduced credit under section 280C(c), enter the amount from line 40, and see the line 17 instructions for the schedule that must be attached. If you are electing the reduced credit, multiply line 40 by 65% (.65) and enter the result. Also, write "Sec. 280C" on the dotted line to the left of the entry space.	41		

Section C—Current Year Credit for Increasing Research Activities

42	Pass-through research credit(s) from a partnership, S corporation, estate, or trust	42		
43	Current year credit. Add line 17 or line 41 to line 42, and go to Part II	43		
Part II Allowable Credit (See Who must file Form 3800 to find out if you complete Part II or file Form 3800.)				
44	Regular tax (see instructions)	44		
45	Alternative minimum tax (see instructions)	45		
46	Add lines 44 and 45	46		
47a	Foreign tax credit	47a		
b	Credits from Form 1040, lines 48 through 54	47b		
c	Possessions tax credit (Form 5735, line 17 or 27)	47c		
d	Nonconventional source fuel credit (Form 8907, line 23)	47d		
e	Other specified credits (see instructions)	47e		
f	Add lines 47a through 47e	47f		
48	Net income tax. Subtract line 47f from line 46. If zero, skip lines 49 through 52 and enter -0- on line 53	48		
49	Net regular tax. Subtract line 47f from line 44. If zero or less, enter -0-	49		
50	Enter 25% (.25) of the excess, if any, of line 49 over \$25,000 (see instructions)	50		
51	Tentative minimum tax (see instructions)	51		
52	Enter the greater of line 50 or line 51	52		
53	Subtract line 52 from line 48. If zero or less, enter -0-	53		
54	Credit allowed for the current year. Individuals, estates, and trusts: Enter the smallest of line 43, line 53, or the amount from the formula in the instructions for line 54 here and on Form 1040, line 55; or Form 1041, Schedule G, line 2c. Corporations: Enter the smaller of line 43 or line 53 here and on Form 1120, Schedule J, line 6d; Form 1120-A, Part I, line 2; or the applicable line of other returns. If line 54 is smaller than line 43, see instructions	54		

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

What's New

- The credit for increasing research activities (research credit) is not allowed for amounts paid or incurred after December 31, 2005. However, pending legislation may allow the credit for later expenditures.
- Certain amounts paid or incurred to energy research consortia after August 8, 2005, are eligible for the research credit. See the line 1 instructions for further details.
- Amounts paid or incurred to certain small businesses, universities, and federal laboratories after August 8, 2005, can be treated as contract research expenses. See the line 8 instructions for further details.

Purpose of Form

Use Form 6765 to figure and claim the credit for increasing research activities.

Who Must File

An individual, estate, trust, organization, or corporation claiming a credit for increasing research activities; or any S corporation, partnership, estate, or trust that allocates the credit to its shareholders, partners, or beneficiaries must complete this form and attach it to

its income tax return. If allocating the credit, see the instructions for line 43.

Qualified Research

The research credit is generally allowed for expenditures paid or incurred for qualified research. *Qualified research* means research for which expenditures may be treated as section 174 expenses. This research must be undertaken for discovering information that is technological in nature, and its application must be intended for use in developing a new or improved business component of the taxpayer. In addition, substantially all of the activities of the research must be elements of a process of experimentation relating to a new or improved function, performance, reliability, or quality. The research credit generally is not allowed for the following types of activities.

- Research conducted after the beginning of commercial production.
- Research adapting an existing product or process to a particular customer's need.
- Duplication of an existing product or process.
- Surveys or studies.
- Research relating to certain internal-use computer software.
- Research conducted outside the United States, Puerto Rico, or a U.S. possession.

- Research in the social sciences, arts, or humanities.
- Research funded by another person (or governmental entity).

If you incur qualified clinical testing expenses relating to drugs for certain rare diseases, you can elect to claim the orphan drug credit for these expenses instead of the research credit. See Form 8820, Orphan Drug Credit.

See section 41 and Regulations sections 1.41-2 and 1.41-4 for other definitions and special rules.

Special Rules

See section 41(f) and Temporary Regulations section 1.41-6T (Regulations section 1.141-6 for tax years beginning after December 31, 2004, and ending before May 24, 2005) for special rules related to:

- Aggregation of expenditures for members of controlled groups and businesses under common control;
- Allocation of the credit by partnerships, estates, and trusts;
- Adjustments, if a major portion of a business is acquired or disposed of; and
- Short tax years.

For special rules concerning the allocation and apportionment of research and experimental expenditures between U.S. and foreign source income, see sections 861 through 864.

Specific Instructions

Part I—Current Year Credit

You can claim either the regular credit in Section A or elect the alternative incremental credit in Section B. Under the alternative incremental credit, a smaller three-tiered fixed-base percentage and reduced three-tiered credit rate apply. You may want to figure your credit both ways to see which gives you the larger credit. However, once elected, the alternative incremental credit applies to the current tax year and all later tax years, unless:

1. For tax years ending after May 23, 2005 (see Temporary Regulations section 1.41-8T), you revoke the election by completing Section A of Form 6765, or

2. For tax years beginning after December 31, 2004, and ending before May 24, 2005, you receive IRS consent to revoke the election. In the year the consent is granted, attach the consent to Form 6765 and the return.

For tax years ending after May 23, 2005, the revocation must be on an original return filed by the due date (including extensions).

Members of Controlled Groups or Businesses Under Common Control

For purposes of figuring the credit, all members of a controlled group of corporations (as defined in section 41(f)(5) and Temporary Regulations section 1.41-6T) (Regulations section 1.41-6 for tax years beginning after December 31, 2004, and ending before May 24, 2005)), and all members of a group of businesses under common control, are treated as a single taxpayer. The credit allowed each member is based on its proportionate share of qualified research expenses and basic research payments giving rise to the group's research credit. Use Section A or B of Part I to figure the credit for the entire group, but enter only this member's share of the credit on line 17 or line 41, whichever applies. Attach a statement showing how this member's share of the credit was figured, and write "See Attached" next to the entry space for line 17 or line 41.

Section A—Regular Credit

Skip this section and go to Section B if:

1. You are electing the alternative incremental credit, or
2. You previously elected the alternative credit and (a) for tax years ending after May 23, 2005, are not revoking the election or (b) for tax years beginning after December 31, 2004, and ending before May 24, 2005, have not received permission to revoke the election.

For special rules regarding the election or revocation of the election by a controlled group of corporations, see Temporary Regulations section 1.41-8T.

Line 1

Enter the amounts you paid or incurred to energy research consortia after August 8, 2005. In general, an energy research consortium is any organization described in section 501(c)(3), exempt from tax under section 501(a), organized and operated primarily to conduct energy research, and not a private foundation. See section 41(f)(6) for further details.

Do not include any amounts paid or incurred for foreign energy research, i.e., energy research conducted outside the United States, Puerto Rico, or any possession of the United States.

Any amount included on line 1 cannot be included elsewhere on the return.

Line 2

Enter the amounts the corporation (not to include S corporations, personal holding companies, and service organizations) paid in cash, under a written contract, for basic research to a qualified university, scientific research organization, or grant organization. See section 41(e) for details, including the definitions of qualified organizations.

Line 3

Enter the qualified organization base period amount based on minimum basic research amounts plus maintenance-of-effort amounts for the three preceding tax years. See section 41(e) for details.

Line 7

Enter the amount you paid or incurred for the rental or lease of computers used in qualified research. The computer must be located off your premises and you must not be the operator or primary user of the computer. Reduce this amount by the amount that you (or any member of a controlled group of corporations or businesses under common control) received or accrued for the right to use substantially identical property.

Line 8

Enter the amounts you paid or incurred, subject to the following limitations.

- 100% of amounts you paid (or incurred) after August 8, 2005, for qualified energy research performed by: an eligible small business, a university, or a federal laboratory (see section 41(b)(3)(D) for definitions of those entities). Also include payments to those same entities to the extent they are included as basic research payments in line 2, not to exceed the base period amount in line 3.

- 75% of amounts you paid (or incurred) for qualified research by a qualified research consortium (as defined by section 41(b)(3)(C)(ii)). Also include 75% of the payments to a qualified research consortium to the extent they are included as basic research payments in line 2, not to exceed the base period amount in line 3.

- 65% of amounts you paid (or incurred) for all other qualified research by any other person. Also include 65% of the payments to that person to the extent they are included as basic research payments in line 2, not to exceed the base period amount in line 3.

Note. Prepaid contract research expenses are considered paid in the year the research is actually done.

Line 10

The fixed-base percentage depends on whether you are an existing company or a start-up company.

A start-up company is a taxpayer that had both gross receipts and qualified research expenses either:

- For the first time in a tax year beginning after 1983, or
- For fewer than 3 tax years beginning after 1983 and before 1989.

The fixed-base percentage for a start-up company is figured as follows.

- For the first 5 tax years beginning after 1993 for which you have qualified research expenses, the percentage is 3%.
- For the 6th tax year beginning after 1993 for which you have qualified research expenses, divide the aggregate qualified research expenses for the 4th and 5th such tax years by the aggregate gross receipts for those tax years, then divide the result by 6.
- For the 7th tax year beginning after 1993 for which you have qualified research expenses, divide the aggregate qualified research expenses for the 5th and 6th such tax years by the aggregate gross receipts for those tax years, then divide the result by 3.
- For the 8th tax year beginning after 1993 for which you have qualified research expenses, divide the aggregate qualified research expenses for the 5th, 6th, and 7th such tax years by the aggregate gross receipts for those tax years, then divide the result by 2.
- For the 9th tax year beginning after 1993 for which you have qualified research expenses, divide the aggregate qualified research expenses for the 5th, 6th, 7th, and 8th such tax years by the aggregate gross receipts for those tax years, then divide the result by 1.5.

● For the 10th tax year beginning after 1993 for which you have qualified research expenses, divide the aggregate qualified research expenses for the 5th through 9th such tax years by the aggregate gross receipts for those tax years, then divide the result by 1.2.

● For the 11th and later tax years beginning after 1993 for which you have qualified research expenses, divide the aggregate qualified research expenses for any 5 of the 5th through 10th such tax years by the aggregate gross receipts for those tax years.

The fixed-base percentage for an existing company (any company that is not a start-up company) is figured by dividing the aggregate qualified research expenses for the tax years beginning after 1983 and before 1989 by the aggregate gross receipts for those tax years.

The fixed-base percentage for all companies (existing and start-up) must be rounded to the nearest 1/100th of 1% (that is, four decimal places) and cannot exceed 16%. In addition, when figuring your fixed-base percentage, you must reflect expenses for qualified research conducted in Puerto Rico or a U.S. possession for all prior tax years included in the computation.

If short tax years are involved, see Regulations section 1.41-3(b).



CAUTION *Reduce gross receipts by returns and allowances. For a foreign corporation, include only gross receipts that are effectively connected with a trade or business in the United States (or in Puerto Rico or a U.S. possession, if applicable).*

Line 11

Enter the average annual gross receipts (reduced by returns and allowances) for the 4 tax years preceding the tax year for which the credit is being determined. You may be required to annualize gross receipts for any short tax year. For a foreign corporation, include only gross receipts that are effectively connected with a trade or business in the United States (or in Puerto Rico or a U.S. possession, if applicable).

Line 17

If you do not elect the reduced credit, which can only be claimed on an original timely filed return (with extensions), you must reduce your otherwise allowable deduction for qualified research expenses or basic research expenses by the amount of the credit on this line. If the credit exceeds the amount allowed as a deduction for the tax year, reduce the amount chargeable to the capital account for the year for such expenses by the amount of the excess. Attach a schedule to your tax return that lists the deduction amounts (or capitalized expenses) that were reduced. Identify

the lines of your return (schedule or forms for capitalized items) on which the reductions were made.

Section B—Alternative Incremental Credit

Complete this section only if, instead of the regular credit:

1. You are electing the alternative incremental credit, or
2. You previously elected the alternative credit and on this return are not revoking the election and have not previously received permission to revoke the election.

For special rules regarding the election or revocation of the election by a controlled group of corporations, see Temporary Regulations section 1.41-8T (Regulations section 1.41-6 for tax years beginning after December 31, 2004, and ending before May 24, 2005).

Section C—Current Year Credit

Line 43

Pass-through entities should report the amount on line 43 as follows.

Estates and trusts. Allocate the credit on line 43 between the estate or trust and the beneficiaries in the same proportion as income was allocated. In the margin for line 43, the estate or trust should enter its share of the credit. Label it "1041 Portion" and use this amount in Part II (or on Form 3800, if required) to figure the credit to claim on Form 1041. On Schedule K-1, report the share of credit allocated to each beneficiary.

S corporations and partnerships.

Attach Form 6765 to your tax return, and on Schedule K-1 report the credit allocated to each shareholder or partner. Electing large partnerships include this credit in "general credits."

Part II—Allowable Credit

The credit allowed for the current year may be limited based on your tax liability. Use Part II to figure the allowable credit unless you must file Form 3800, General Business Credit.

Who must file Form 3800. You must file Form 3800 if you have:

- A research credit from a passive activity,
- More than one credit included in the general business credit (other than a credit from Form 8844, Form 6478, or Section B of Form 8835), or
- A carryback or carryforward of any of those credits.

See the instructions for Form 3800 to find out which credits are included in the general business credit.

Line 44

Enter the regular tax before credits from the following line of the appropriate form or schedule.

● Individuals. Enter the amount from Form 1040, line 44.

● Corporations. Enter the amount from Form 1120, Schedule J, line 3; Form 1120-A, Part 1, line 1; or the applicable line of your return.

● Estates and trusts. Enter the sum of the amounts from Form 1041, Schedule G, lines 1a and 1b, or the amount from the applicable line of your return.

Line 45

Enter the alternative minimum tax (AMT) from the following line of the appropriate form or schedule.

● Individuals. Enter the amount from Form 6251, line 35.

● Corporations. Enter the amount from Form 4626, line 14.

● Estates and trusts. Enter the amount from Form 1041, Schedule I, line 56.

Line 47e

Include on lines 47e any amounts claimed on:

- Form 8834, Qualified Electric Vehicle Credit, line 20;
- Form 8910, Alternative Motor Vehicle Credit, line 18; and
- Form 8911, Alternative Fuel Vehicle Refueling Property Credit, line 19.

Line 50

See section 38(c)(5) for special rules that apply to married couples filing separate returns, controlled corporate groups, regulated investment companies, real estate investment trusts, and estates and trusts.

Line 51

Although you may not owe AMT, you generally must still compute the tentative minimum tax (TMT) to figure your credit. For a small corporation exempt from the AMT under section 55(e), enter zero. Otherwise, complete and attach the applicable AMT form or schedule. Enter on line 51 the TMT from the following line of the form or schedule.

- Individuals: Form 6251, line 33.
- Corporations: Form 4626, line 12.
- Estates and trusts: Form 1041, Schedule I, line 54.

Line 54

For an individual, estate, or trust, the credits on line 17 or 41, and line 42, are limited to the amount of tax attributable to your taxable income from the sole proprietorship or your interest in the partnership, S corporation, estate, or trust (pass-through entity) generating the credit. Figure the research credit limitation separately for each business enterprise by using the following formula:

$$\text{(Line 48 - Line 50) } \times \frac{\text{Taxable income attributable to the sole proprietorship or your interest in the pass-through entity}}{\text{Taxable income for the year (Form 1040, line 43, or Form 1041, line 22)}}$$

The result figured above is limited to the excess of line 48 over line 50. If in the current tax year you had no taxable income attributable to a particular business interest, you cannot claim any research credit this year for that business.

If you cannot use all of the research credit because of the tax liability limit or the taxable income limit above (line 54 is less than line 43), carry the unused credit back 1 year then forward up to 20 years. See the instructions for Form 3800.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below. The estimated average time is:

Recordkeeping 15 hr., 18 min.
Learning about the law or the form 1 hr., 40 min.
Preparing and sending the form to the IRS 2 hr.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

